

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Continue Implementation and Administration of the California Renewables Portfolio Standard Program.

Rulemaking 08-08-009
(Filed August 21, 2008)

**REPLY COMMENTS OF L. JAN REID ON IMPERIAL VALLEY
RENEWABLES DEVELOPMENT AND EVALUATION OF ALL
RENEWABLE PROCUREMENT CONTRACTS**

Pursuant to the February 3, 2009 Assigned Commissioner's Ruling (ACR) of Commission President Michael Peevey and the February 9, 2009 ruling of Administrative Law Judge (ALJ) Anne Simon, I submit these reply comments on Renewables Portfolio Standard (RPS) development in Imperial Valley and the evaluation of all RPS contracts. Reply comments are due Friday, March 6, 2009. I will file this pleading electronically on the due date.

I. Recommendations

I have relied on past Commission decisions and the ACR in developing recommendations concerning Imperial Valley renewables development and project viability criteria. I recommend the following:

1. The Commission should not set up two levels of contract approval, based on project viability scores. (Section II.)
2. If the Commission approves a contract, the IOU should be able to amend the contract subject to Commission approval, earmark the project for flexible compliance purposes, and use the contract to justify a compliance deficit in the event such justification becomes necessary. (Section II.)

3. The Commission should not evaluate contracts based on a price to viability ratio as suggested by SDG&E. (Section II.)
4. The Commission should not order the IOUs to incorporate an Imperial Valley bid evaluation metric into the contract evaluation process. (Section IV.)

My recommendations are based on the following reasoning.

1. Project viability should be weighed against other factors such as price, on-line date, length of contract, project location, and credit/collateral factors in the contract selection process.
2. If the Commission believes that a particular contract is not viable, the Commission should protect ratepayers by rejecting the contract.
3. If an IOU is not able to earmark a contract with a low project viability score, the IOU is likely to overprocure. Thus, ratepayers face the risk of paying for two contracts, only one of which may be necessary.
4. San Diego Gas & Electric Company's "alternative approach" would compare known price factors with an estimate of project viability.
5. Project viability scores represent an estimate of the probability of project failure.
6. There is no record evidence to suggest that the Sunrise project will not be successful or that renewables project will not be developed in the Imperial Valley region.
7. Any preference given to Imperial Valley Renewables projects will result in an increase in the price of Imperial Valley renewables.

II. Project Viability

The Center for Energy Efficiency and Renewable Technologies (CEERT) recommends that: (CEERT Comments, p. 12.)

Thus, a contract with a low project viability score could still be approved by the Commission, but the IOU could be instructed at the same time that the contract could not be earmarked by the IOU for flexible compliance, could not be used by the IOU to justify an RPS compliance deficit, and could not be subsequently amended. In that case, such a project would be paid for energy deliveries, but only if it meets its online date and performs as expected under

the terms of the approved contract. No extension of the on-line date or changes to milestone requirements would be permitted.

This kind of limitation on the regulatory treatment of the contract would not degrade the contract's approval or enforceability of its terms if approved. However, it certainly could serve as "notice" to the IOU that "over-procurement" of eligible renewable generation may be required to meet a potential deficit in meeting its RPS targets if the project does not come on line.

The Commission should not set up two levels of contract approval, based on inherently arbitrary project viability scores. At best, project viability scores are an estimate of the probability of project failure. Project viability should be weighed against other factors such as price, on-line date, length of contract, project location, and credit and collateral in the contract selection process. To do otherwise, constitutes poor public policy to the detriment of California rate-payers.

If the Commission approves a contract, the IOU should be able to amend the contract, earmark the project for flexible compliance purposes, and use the contract to justify a compliance deficit in the event such justification becomes necessary. If the Commission believes that a particular contract is not viable, the Commission should protect ratepayers by rejecting the contract.

If an IOU is not able to earmark a contract with a low project viability score, the IOU is likely to overprocure. Thus, ratepayers face the risk of paying for two contracts, only one of which may be necessary.

San Diego Gas & Electric Company (SDG&E) prefers to "use the project viability score as a qualitative factor in the LCBF analysis." (SDG&E Comments, p. 13.) However, SDG&E also suggests an alternative approach. SDG&E explains that: (SDG&E Comments, pp. 13-14, footnote omitted.)

An alternative approach would be to calculate a ratio of all-in LCBF price to viability with some target figure adopted for shortlisting purposes. In this price to viability ratio ("PVR") approach, the lower the ratio, the "better" the bid. The IOU would calculate the PVR for each bid and rank from lowest (best) to highest (worst), and then work from lowest PVR to highest PVR until enough MWHs or projects were included to meet its identified shortlisting target. This approach would require careful implementation in order to avoid being overly sensitive to viability scoring, an inherently subjective process. As with the scatter diagram approach, the IOU could eliminate all projects with viability scores equal to or less than 4 from consideration.

SDG&E's "alternative approach" would compare known price factors with an estimate of project viability. Even SDG&E admits that project viability is an inherently subjective process. The Commission should not adopt the "alternative approach" because it is not consistent with least-cost best-fit and it may prevent some low cost projects from being selected to the detriment of ratepayers.

III. Cost Effectiveness

The California Wind Energy Association (CWEA) points out that: (CWEA Comments, p. 4.)

As indicated by the state's Renewable Energy Transmission Initiative ("RETI"), Sunrise is just one of many new transmission lines that will be needed to create an unconstrained, competitive market to minimize the cost of achieving our renewable energy goals while strengthening the grid overall. We needn't and shouldn't manipulate the market in an attempt to prove that any particular line is justified.

It is not necessary for the Commission to attempt to manipulate the renewables market in an attempt to justify the Sunrise project. There is no record evidence to suggest that the Sunrise project will not be successful or that renewables project will not be developed in the Imperial Valley region. I am concerned

that any preference given to Imperial Valley Renewables projects will result in an increase in the price of Imperial Valley renewables.

Imperial Valley developers will have no incentive to offer competitive prices if they believe that their projects will be accepted regardless of price. It is also possible that inflated Imperial Valley renewables prices will effectively set the market price for all renewables. Thus, a system of preferences will result in higher prices for Imperial Valley renewables and may result in higher prices for all renewables. Such a system of preferences is inconsistent with the least-cost, best fit requirements of Public Utilities (P.U.) Code §399.14(c)(B).

IV. Imperial Valley Bid Evaluation Metric

The Independent Energy Producers Association (IEP) supports the establishment of a bid evaluation metric in the least-cost best fit methodology to give preference to Imperial Valley resources. (IEP Comments, pp. 6-7.) IEP does not explain how this proposal complies with state law, nor does it explain how this bid evaluation metric will lead to the selection of least-cost best-fit resources. The Commission must reject this proposal because it will not result in the selection of least-cost best-fit resources as required by state law.

V. Conclusion

The Commission should adopt the recommendations of L. Jan Reid for the reasons given herein.

* * *

Dated March 6, 2009, at Santa Cruz, California.

/s/

L. Jan Reid
3185 Gross Road
Santa Cruz, CA 95062
Tel/FAX (831) 476-5700
janreid@coastecon.com

VERIFICATION

I, L. Jan Reid, make this verification on my behalf. The statements in the foregoing document are true to the best of my knowledge, except for those matters that are stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Dated March 6, 2009, at Santa Cruz, California.

/s/

L. Jan Reid
3185 Gross Road
Santa Cruz, CA 95062
Tel/FAX (831) 476-5700
janreid@coastecon.com

CERTIFICATE OF SERVICE

I certify that I have this day by electronic mail served a true copy of the original attached "Reply Comments Of L. Jan Reid On Imperial Valley Renewables Development and Evaluation of All Renewable Procurement" on all parties of record in this proceeding or their attorneys of record. I will serve a paper copy of the pleading on Commissioner Michael Peevey, and on Administrative Law Judges Burton Mattson and Anne Simon.

Dated March 6, 2009, at Santa Cruz, California.

/s/ _____
L. Jan Reid